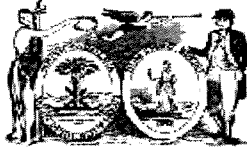


STATE OF SOUTH CAROLINA
State Budget and Control Board
PROCUREMENT SERVICES DIVISION

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

June 6, 2006

Mr. Delbert H. Singleton Jr.
Director
Procurement Services Division
6th Floor-Wade Hampton Building
Columbia, South Carolina 29201

Dear Delbert:

I have attached the Department's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the South Carolina Department of Parks, Recreation and Tourism a three-year certification as noted in the audit report.

Sincerely,

R. Voight Shealy
Materials Management Officer

/gs

**SOUTH CAROLINA DEPARTMENT OF PARKS,
RECREATION AND TOURISM
PROCUREMENT AUDIT REPORT
JANUARY 1, 2003 – SEPTEMBER 30, 2005**

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NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

May 9, 2006

Mr. R. Voight Shealy
Materials Management Officer
Office of Procurement Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Parks, Recreation and Tourism for the period January 1, 2003 through September 30, 2005. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the Department's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Parks, Recreation and Tourism is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report that we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Parks, Recreation and Tourism in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in dark ink, appearing to read "Larry G. Sorrell", with a stylized, sweeping flourish extending to the right.

Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Parks, Recreation and Tourism. Our on-site review was conducted November 14, 2005 through December 14, 2005 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

On June 17, 2003 the Budget and Control Board granted the South Carolina Department of Parks, Recreation and Tourism the following procurement certifications:

<u>PROCUREMENT AREAS</u>	<u>CERTIFICATION LIMITS</u>
Goods and Services	\$ 25,000 per commitment
Consultant Services	\$ 25,000 per commitment
Information Technology	\$ 25,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per change order

Our audit was performed primarily to determine if recertification is warranted. No additional certifications over the current limits were requested.

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Parks, Recreation and Tourism and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected a judgmental sample for the period January 1, 2003 through September 30, 2005 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period January 1, 2003 through September 30, 2005
- (2) Procurement transactions for the period July 1, 2002 through June 30, 2005 as follows:
 - a) Ninety-six payments each exceeding \$1,500
 - b) A block sample of four-hundred sequential purchase orders
 - c) Procurement card transactions for July, August and September of 2005
- (3) Seven construction contracts and three related professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Approval of most recent Information Technology Plans
- (6) Internal procurement procedures manual
- (7) Surplus property disposition
- (8) File documentation and evidence of competition

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Parks, Recreation and Tourism, hereinafter referred to as the Department, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>Unauthorized Sole Source Procurements</u>	7
The written justifications for twenty-five sole source procurements were not signed by someone with sole source authority.	
II. <u>Inappropriate Sole Source Procurements</u>	9
Eight sole source procurements were inappropriate.	
III. <u>Sole Source and Emergency Procurement Reporting Errors</u>	10
We noted several types of reporting errors.	
IV. <u>Procurements with Inadequate Competition</u>	11
Four procurements were not supported by solicitations of competition or had inadequate solicitations of competition.	
V. <u>Unauthorized Contract Modification</u>	12
On a contract for waste disposal services, the Department paid increased rates on an invoice that exceeded the rates established by the Materials Management Office.	
VI. <u>Payment Issues</u>	13
We reviewed three vouchers that exceeded the amounts on the purchase orders.	
VII. <u>Procurement Card Transactions</u>	13
We identified \$16,145 of a particular commodity procured for one park over 2 months through the procurement card without competition where a competed contract should be used.	

PAGE

VIII. Artificially Divided Procurement

14

The Department processed two separate requests for quotations that should have been combined into one formal sealed bid procurement.

IX. Bidding Procedures

15

The Department issued two competitive sealed bids that did not comply with the Procurement Code. One of the solicitations did not include preferences.

X. Other Procurement Issues

15

The Department made two procurements utilizing an exemption that did not apply.

RESULTS OF EXAMINATION

I. Unauthorized Sole Source Procurements

The Department's procurement officers have been authorizing sole source procurements even though the South Carolina Procurement Code, hereinafter referred to as the Code, specifically prohibits that.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
36	07/08/05	Software maintenance	\$ 4,000
47	07/08/05	Software maintenance	2,751
55	07/12/05	Cable TV service	2,677
73	07/12/05	Cable TV service	3,751
99	07/14/05	Satellite services	2,375
163	08/08/05	Upgrade to postage machine	15,963
285	08/31/05	Install transformer	1,793
312	09/09/05	Research report	5,000
313	09/09/05	Software	5,345
332	09/16/05	Rental of postage meters	3,537
390	09/29/05	URL Domain name	5,000
474	11/03/04	Design of exhibit case	6,200
564	02/16/05	Design/Construction of exhibit	9,000
771	02/02/05	Underground electric service	2,203
797	03/08/05	Hardware & WAN monitoring	8,684
843	03/21/05	Maintenance support for software	2,822
857	03/28/05	Upgrades to auto cad	8,764
921	04/14/05	Rental of trade show booth	9,000
928	04/15/05	Buy out agreement for photographs	8,500
1060	06/22/05	Animal resistant trash receptacles	6,174

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1199	04/25/03	Repairs to communications equipment	2,960
890	04/01/05	Canadian advertising	35,000
889	04/01/05	Group tour marketing program	50,000
959	04/26/05	Participation fee for showcase	100,000
56	07/01/04	Marketing services	<u>150,000</u>
Total			<u>\$451,499</u>

Section 11-35-1560 of the Code states, in part:

A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item. (Emphasis added)

Since the Code specifically prohibits procurement officers from authorizing sole source procurements, all of the procurements signed by them were unauthorized as defined in Regulation 19-445.2015. Additionally, Section 8 of the Department's Procurement Policies and Procedures Manual defines the designated sole source authority as the Director of Finance, Chief of Staff or Director of Parks, Recreation & Tourism. Ratification in accordance with Regulation 19-445.2015 will have to be requested for the unauthorized procurements.

We recommend the Department comply with the Code and the established sole source authority as defined in the Procurement Policies and Procedures Manual. A ratification request for each procurement less than \$25,000, the Department's procurement authority, must be submitted to the Director or a designee in accordance with Regulation 19-445.2015. The Department must submit ratification requests for purchase orders 890, 889, 959 and 56 to the Materials Management Officer in accordance with Regulation 19-445.2015 since each exceeded the Department's procurement authority.

DEPARTMENT RESPONSE

The Auditor on site notified the Finance Director of the violation of Code Section 11-35-1560. Corrective action was immediately taken to ensure adherence to Code Section 11-35-1560. All purchases referenced in this section have been ratified by the appropriate authority.

II. Inappropriate Sole Source Procurements

Eight procurements were inappropriately declared as sole sources.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
16	07/01/04	Fiberglass embedded panels	\$ 1,685
332	09/16/05	Postage machine	3,537
474	11/03/04	Design and construction of exhibit case	6,200
564	02/16/05	Design and construction of exhibit	9,000
577	02/17/05	Musgrove exhibit design	2,500
807	01/08/03	Pedestal style bases and frames for signage	4,650
1009	03/05/03	Wayside interpretive signs	2,772
1072	03/18/03	Interpretive signs	4,025

Section 11-35-1560 states in part, "A contract may be awarded for a supply, service, or construction item without competition when, ... the chief procurement officer, the head of a purchasing agency, or a designee of either officer, above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item." We believe competition is available for each of these procurements.

We recommend the Department solicit competition in compliance with the Code for these types of items.

DEPARTMENT RESPONSE

POs 16, 807, 1009, 1072 - Wayside and Interpretative Signs -The wayside and interpretative signs for Huntington Beach State Park were originally bid in FY 03 and awarded on purchase order 264. The winning bidder was based on design specifications from the National Park Service. The South Carolina State Park Service decided to standardize the signage throughout the State Park System. Therefore, sole source documents are used to ensure the continuity of the signage in the State Park Service. In addition, PRT issued two request for quotations for the fabrication of wayside and interpretative signs in FY 05 and in FY 06 and received only one response which was the sole source vendor.

PO 332 - Rental of Postage Machines - These postage meters are on state contract therefore a sole source was inappropriate. The procurement officer erroneously issued a sole source because this was a contract renewal. We agree with this finding.

PO 474 - Design and construction of exhibit case - Design and fabrication of exhibit case to mount a CCC uniform was donated to the park. The vendor designed and fabricated the existing exhibit display cases. This was sole sourced in order to be compatible with the existing exhibits. The vendor owns the original design of the display units.

PO 564 -Design and construct of exhibit - This was an upgrade to the design for the entry experience at the Region III Discovery Center in the Heritage Corridor. The original award for the design of the interpretative exhibits and visitors services was awarded on contract 04-56117-A-10204 awarded by MMO. The vendor owned the original design.

PO 577 - Musgrove exhibit design -This vendor designed and installed two of the four planned exhibits. We based the sole source on this history in order to maintain the same look and continuity of design for the remaining exhibits. This was only for the design of the new 'Southern Campaign' exhibit.

III. Sole Source and Emergency Procurement Reporting Errors

We noted several types of reporting errors.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>	<u>Error</u>
807	01/08/03	Pedestal style bases and frames sole source	\$ 4,650	Double reported
1009	03/05/03	Wayside interpretive signs sole source	2,772	Double reported
1012	03/08/03	Install and test Cables sole source	1,628	Double reported
1043	03/11/03	Market and PR plan sole source	3,321	Double reported
1114	03/27/03	Participation fee sole source	3,757	Double reported
1119	03/28/03	Participation fee sole source	2,302	Double reported
36	07/08/05	Software maintenance sole source	4,000	Exempt
47	07/08/05	Software maintenance sole source	2,751	Exempt
843	03/21/05	Software maintenance sole source	2,822	Exempt
444	10/22/03	Fiberglass panels sole source	2,153	Not reported
1060	06/22/05	Animal resistant trash receptacles sole source	6,174	Not reported
C41172	07/01/04	Support platform for salvaged vessel emergency	2,700	Not reported

We recommend the Department review its procedures for the reporting of sole source and emergency activity to determine the weakness that resulted in the reporting errors. We also recommend the Department file amended reports by fiscal year correcting the errors.

DEPARTMENT RESPONSE

Corrective action has been taken to ensure these purchases are properly reported. Corrected quarterly reports have been submitted to MMO.

IV. Procurements with Inadequate Competition

Four procurements were either not supported with solicitations of competition, sole source or emergency determinations, exemptions or were supported with inadequate solicitations of competition.

<u>PO</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
319	09/09/05	Heat pump	\$ 2,968
491	12/06/04	Replace valve	14,852
51024	07/01/03	Wall beds	17,851
C41111	07/09/04	Construct dock at the villas	12,450

The Department initiated the heat pump procurement as an emergency procurement as defined in Section 11-35-1570 and Regulation 19-445.2110 but did not complete the procedures. No competition was solicited.

The Department issued a request for quotation solicitation to replace a valve and advertised the procurement in South Carolina Business Opportunities (SCBO). No responses were received. The Department subsequently awarded a contract to this failed solicitation. An award can not be made on a failed solicitation. In the event of a failed solicitation, the procurement process should start over unless an emergency condition arises.

The Department issued a request for quotation solicitation on 3/31/05 with a response due by 4/15/05 for the wall beds. The solicitation was advertised in SCBO. No responses were received. The Department subsequently awarded a contract to this failed solicitation to the vendor that provided a faxed quote on 2/14/05. An award can not be made on a failed solicitation. In the event of a failed solicitation, the procurement process should start over unless an emergency condition arises.

The Department solicited quotes to construct a dock at the villas, advertised the SCBO and received six responses from vendors on the vendor's forms. The procurement was managed by the Department's Recreation, Planning and Engineering Office. The Department failed to prepare a written solicitation of written quotes as required in Section 11-35-1550 (2)(d) of the Code and Section 8.4.E of the Manual for Planning and Execution of State Permanent Improvements, Part II, of the Office of the State Engineer.

We recommend the Department comply with the competitive requirements of the Code. We recommend the Department follow requirements in the Manual from the Office of the State Engineer for procurements with a value from \$10,000 to \$25,000.

DEPARTMENT RESPONSE

PO 319 - Emergency form was not completed. We will ensure the appropriate form is completed, signed by the appropriate staff and placed in the file.

POs 491, 51024 - The Department agrees with the finding and will ensure failed solicitations are either re-bid or declared an emergency procurement if conditions warrant.

PO C41111 - The Department agrees with this finding.

V. Unauthorized Contract Modification

On a contract for waste disposal services, the Department paid increased rates on an invoice that exceeded the rates established by the Materials Management Office (MMO) without authorization.

<u>Voucher</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>	<u>Overpayment</u>
16303	07/18/05	Waste disposal services Hunting Island	\$ 1,735	\$ 393

Any modification to a contract established by MMO must be authorized by MMO. The contract period is July 1, 2003 through June 30, 2008. We requested that the Department review all invoices paid to this vendor to determine the extent of the overpayment and provide that information to us. However, we have not been provided with that information.

We recommend the Department review each payment to this vendor under this contract to determine if additional overpayments were made. That information needs to be reported to our office. If other contracts to this vendor exist, those payments should be reviewed also. If overpayments were made, the Department should request a refund. Otherwise, ratification of the unauthorized modification will have to be made to the Materials Management Officer with supporting documentation explaining why the state owed the increased amount. In the future, any modifications to contracts issued by MMO must be authorized by MMO.

DEPARTMENT RESPONSE

The Department will monitor contracts more closely to ensure proper payment is issued. We are working with the vendor to receive credit for the overpayments. The overpayments were a result of increased land fill fees. The vendor has been notified to submit a contract modification request to MMO to adjust the land fill fees.

VI. Payment Issues

We reviewed three vouchers that exceeded the amounts on the purchase orders.

<u>Voucher</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>	<u>Overpayment</u>
14498	6/09/04	Advertising agency	\$15,690	\$1,600
3249	09/28/04	Printing services	1,853	353
14059	06/02/04	Wall beds	5,367	199

The payment to the advertising agency included a charge of \$1,600 for feature writing that was not part of the contract established by the Materials Management Office for the Department.

For the printing services, the Department issued purchase order 102 with an amount not to exceed of \$1,500. A total of \$1,853 was paid.

The quote from the awarded vendor for the wall beds showed the shipping cost at \$0 and the purchase order did not include shipping. However, the invoice included \$199 for shipping and was inappropriately paid.

We recommend any discrepancies between purchase orders and invoices be reconciled and documented prior to payment.

DEPARTMENT RESPONSE

Voucher 14498 - Advertising agency - The Department will request a contract modification to ensure feature writing is explicitly stated in the awarded advertising contract.

Voucher 3249 - Printing services_ - There were two purchase orders paid by this voucher. The purchase orders stated 'Do not exceed \$1,500' however; one exceeded the purchase order limit by \$64.25. We agree with this finding with correction of overpayment amount.

Voucher 14059 - Wall beds -The agency processed payment for shipping from the vendor. We agree with this finding.

VII. Procurement Card Transactions

We reviewed procurement card transactions for the months of July, August and September of 2005. We noted one item.

The Department procured a total of \$16,145 over two months for fertilizer, herbicides and other lawn chemicals for Hickory Knob State Park with the procurement card. Based on the usage, the Department needs to issue a solicitation for the total estimated quantity.

We recommend the Department establish an agency contract by identifying the estimated needs and solicit competition based on the total value. The Department should receive better pricing and the end user will not have to be limited to \$1,500 of goods per order as dictated by procurement card procedures.

DEPARTMENT RESPONSE

The Department is working with the golf course managers to develop an request for quotation for all necessary fertilizers and herbicides.

VIII. Artificially Divided Procurement

The Department processed the following two requests for quotation (RFQ) solicitations that should have been combined.

<u>RFQ</u>	<u>Description</u>	<u>Amount</u>
05-039	Electrical cable	\$ 23,588
05-040	Electrical supplies	<u>14,787</u>
Total		<u>\$38,375</u>

Regarding these request for quotations, the Department responded that some vendors could bid on the cable and some could bid on the supplies with only a few being able to bid on both. It should be noted that that award for each solicitation was made to the same vendor. In such situations above where the Department wishes to broaden the qualified vendor base thereby enhancing competition, the solicitation can be divided into lots with the subsequent awards being made by each lot. In this instance Lot A could represent electrical cable and Lot B could represent electrical supplies.

We recommend procurement requirements be combined and competition solicited based on the total potential value.

DEPARTMENT RESPONSE

The Department agrees with this finding.

IX. Bidding Procedures

The Department issued competitive sealed bids RFQ 05-033 for playground equipment at Myrtle Beach State Park and RFQ 05-042 for refuse collection at Lake Greenwood State Park. The solicitations did not include protest rights, posting location of the award, and the posting date of the awards. The Department did not issue and post the statement of awards. These items are required per Section 11-35-1520 (10). The solicitation for the refuse collection did not include the applicable preferences in Section 11-35-1524.

We recommend the Department comply with the requirements of the Code for competitive sealed bids.

DEPARTMENT RESPONSE

The Department agrees with this finding and has designated an area within the Procurement Office for the posting requirements. The Department will also ensure this information is incorporated into all solicitation documents.

X. Other Procurement Issues

The Department inappropriately made two procurements of software referencing an exemption to the Code for educational materials. Purchase order 360 for campground maps and reservation and registration software for parks, campgrounds and motels in the amount of \$2,200 and purchase order 81 for a software and data license in the amount of \$2,089 were issued referencing an exemption that reads:

4/27/82 Copyrighted education films, filmstrips, slides and transparencies.

5/10/94 Amended an existing exemption to the requirements of the Procurement Code to read as follows: The procurement of copyrighted educational films, filmstrips, slides and transparencies, CD ROM documents, data bases, computer assisted instructional materials, interactive video programs and other related materials made available by information technology that can only be obtained from the company providing the information or service.

Since the two procurements were not education related, the exemption did not apply.

We recommend the Department procure software in compliance with the Code.

DEPARTMENT RESPONSE

The Department interpreted the exemption differently. We will work with the auditor's interpretation from this point.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Parks, Recreation and Tourism in compliance with the Consolidated Procurement Code and ensuing regulations.

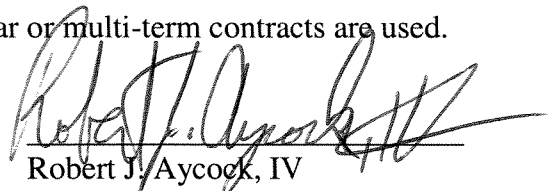
Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Parks, Recreation and Tourism be recertified to make direct agency procurements for three years up to the limits as follows:


PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Goods and Services	*\$ 25,000 per commitment
Consultant Services	*\$ 25,000 per commitment
Information Technology	*\$ 25,000 per commitment
Construction Contract Award	\$ 100,000 per commitment
Construction Contract Change Order	\$ 100,000 per change order
Architect/Engineer Contract Amendment	\$ 15,000 per change order

* Total potential purchase commitment whether single year or multi-term contracts are used.


Robert J. Aycock, IV
Audit Manager

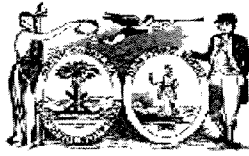

Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

June 6, 2006

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Parks, Recreation and Tourism to our audit report for the period of July 1, 2002 to June 30, 2005. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the South Carolina Department of Parks, Recreation and Tourism have corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Parks, Recreation and Tourism the certification limits noted in our report for a period of three years.

Sincerely,

A handwritten signature in cursive script, reading "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/gs

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